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SUBJECT: UNDP Responds to Embassy Inquiries on Telecom

Ref: a) Tegucigalpa 02612, b) Kushnir, Chang, Matthewman,
Urdaneta, Williams teleconference of 12/9

11. (SBU) Summary. Post thanks Washington agencies for a rapid response to reports of possible unfair procurement practices by UNDP Honduras. We have been able to discuss the Hondutel telecom tenders involving Harris Communications and Midwest Cable with UNDP General Coordinator for telecom bids, Mr. John Morris, and Juan Diego Zelaya (his counterpart from Hondutel). Morris and Zelaya were more forthcoming than any other UNDP representatives to date, providing the timeline of the bid, describing the process and addressing the rumors of undue influence by the French company, Alcatel. Both contracts have now been signed, so advocacy for the U.S. companies does not appear to be feasible at this point. However, post would welcome IO's offer to address the transparency of the process with UNDP New York. End Summary

12. (SBU) On December 4 and 11, EconOffs spoke with Juan Diego Zelaya and John Morris, the Coordinators for Hondutel bids for Hondutel and the UNDP, respectively. Morris noted his contracting section has accounted for over USD 109 million in telecom contracts this year. Though it appeared that two of the 46 tenders were conducted in a less than fair manner (reftel), both were very open and forthcoming on both the process and the background on the two projects in which U.S. companies lost to Alcatel.

Harris and the Microwave Network Tender

13. (SBU) Morris laid out the timeline for the microwave bid, referring to UNDP-kept minutes at times for exact dates. The microwave bid was published on May 16, 19 and 23. Twenty-three companies purchased bid packet materials, but only 4 companies -- Alcatel, Harris, Siemens, and Erickson -- turned in bid packets on the due date, August 25. The first two envelopes, the legal and technical packages, were opened that same day. According to Morris and UNDP minutes, Alcatel, Harris and Siemens all presented technically acceptable bids. The evaluation committee submitted its report and opened envelope 3, the economic envelope, on September 11. Alcatel's bid was roughly USD 7.9 million. Harris offered the second lowest bid at USD 10.2 million, and Seimens finished out the group at USD 13.2 million.

14. (SBU) On September 19, the bids were sent to the local contract committee for review and confirmation of the evaluation committee's recommendation. Since the project is valued at over USD 1 million, following approval by the local committee, the packets were all sent to UNDP's Procurement Advisory Committee in New York on September 22. New York approved UNDP Honduras' recommendation on October 16 and notified Alcatel. Hondutel and Alcatel signed the microwave contract on October 22, 2003.

15. (SBU) U.S. company, Harris Communications, requested USG advocacy because of rumors that Alcatel's original offer omitted USD 3 million worth of equipment in its bid which was added in later for free. The bid also is alleged to have included a low-quality network system that would have to be upgraded later so that Alcatel's bid would remain the lowest. Morris addressed this rumor explaining it as follows: the project contains 80 different site locations with each site requiring a variety of equipment, towers, etc. After the evaluation committee opened the economic envelopes, they proceeded to verify that Alcatel supplied the lowest bid. During the verification of prices, the committee contacted Alcatel to make sure the lot price for each site matched the equipment count in the technical proposal, and that all individual unit prices and overall lot prices added up. In the technical proposal (envelope 2), all equipment was detailed but not priced. When asked point blank if Alcatel had omitted any equipment and was later allowed to add the same in, Morris responded by saying no. Alcatel had included all equipment required from the beginning. Note: Morris was concerned by the fact that

there was a leak in the evaluation committee and that somehow other companies discovered that the evaluation committee had even contacted Alcatel to verify equipment count and prices. End note.

16. (SBU) The evaluation committee for the microwave tender was made up of 8 members, 5 voting and 3 non-voting. All 3 non-voting members are UNDP employees, and the 5 voting members were 1 UNDP engineer, 2 contractors / consultants, and 2 Hondutel representatives. The local contracting committee is comprised of all UNDP officials. While there were no French members or observers on the evaluation committee (all members were from Central and South America), there was one French observer on the local contract committee, Mr. Richard Barathe. Barathe is the Director for corporate strategy and foreign relations. He reports directly to UNDP representative, Jeff Avina. Barathe has been quoted in recent months as telling Honduran colleagues of his delight that U.S. companies are losing UNDP bids, indirectly taking credit for the phenomenon.

Midwest Cable - Fiber Optic Tender

17. (SBU) In the case of the fiber optic contract, the economic bids were opened at the same time as the technical bids and NO clarifications were allowed. Midwest Cable had the lowest bid (\$3 million lower than winner Alcatel's \$13 million). However, because of the lack of ability for clarification and the extreme strictness of the evaluation committee, all applicants were disqualified on technical grounds except for Alcatel. Midwest had 16 deficiencies, at least half of which were trivial. UNDP claims that it has no responsibility for the skewed outcome of this tender (with every company but one being disqualified) because Hondutel prepared the whole packet including the technical specs. Hondutel claims that the technical specs were completely reviewed and substantially revised by UNDP. We asked Hondutel staff if it is true that Alcatel had written an unsolicited bid for a fiber optic project (one of the rumors) on which the technical specs were based, which would have explained why that company alone was found to qualify. Zelaya indicated that Hondutel had developed its draft specs and posted them on the web, asking for public comment. Any company could have commented. So it is possible that Alcatel's comments could have influenced the original design of the bid. But Zelaya reiterated that the bid specifications were revised by UNDP before the tender was launched. UNDP has never explained, to our satisfaction, the early notice of Midwest's disqualification provided to Alcatel and subcontractors, weeks before Midwest itself was notified.

Background on UNDP Procurement Process

18. (U) The fiber optic and microwave tenders were two of 51 tenders that had been planned for 2003. Of these, 46 are in the pipeline. The fiber optic project was the first. Based on the experience with it, the procedures were revised. A Hondutel official provided us with the following description of the typical process.

19. (U) Hondutel staff put together a project profile (sometimes with technical specs, if they have the expertise) and an in-house cost estimate. The project goes to the Hondutel board of directors for a decision on whether to do it or whether to send it to UNDP. Hondutel tends to handle simple procurements (tire repair, water supply) and civil works itself. They will always send to UNDP any complicated procurement that has any chance of generating legal challenges.

110. (U) If the Board decides to send the project to UNDP, the Hondutel staff sends the documentation to UNDP. UNDP then hires consultants to either write the technical specs or to review and revise the specs provided by Hondutel. Once completed, UNDP launches the bids. There is a question and answer period, and Hondutel and UNDP always respond to the questions together.

111. (U) Once the Q&A period is completed, an evaluation committee is formed, and the bids are received and reviewed. The technical proposal is opened at the time of bid submittal to ensure all necessary documents are included. The evaluation committee will include up to one or two members from Hondutel; the remaining members should be UNDP employees although sometimes consultants will be included as well if specialized expertise is needed. The majority will always be UNDP (Hondutel will never have majority). A UNDP rep will always chair the group. There should be no outsiders included in the evaluation process. The committee evaluates the bids, engages in a clarification process with bidders when needed, and decides which bids are compliant in

meeting the technical requirements. For those bidders that are compliant, the economic bids are opened, and the lowest price wins. The evaluation committee prepares its report.

¶12. (U) The evaluation committee's report goes to the local contract committee, which decides to approve or not. If approved, it goes to the advisory committee on procurement in New York for final decision. If approved, Hondutel is then notified and asked if they have any objections to the final decision. Hondutel would only object if the offer price of the finalist is higher than budgeted. This has not happened to date.

Comment

¶13. (SBU) As the contracts have already been signed, Embassy recommends informing Harris that it will not be possible to request a re-bidding of the microwave tender. Zelaya and Morris provided a plausible version of events in these two tenders. They appear to demonstrate that the procurement processes, while controversial and in some ways less than transparent, were not overtly unfair. We will not be able to obtain more information from UNDP or Hondutel here in Honduras. If Washington agencies deem it feasible, we welcome inquiries in New York about the unusual outcomes in these two tenders (all bidders but Alcatel being disqualified in the first and Alcatel winning the microwave tender with a price far below the expected budget), as well as the lack of transparency, and the apparent coziness among Hondutel, UNDP and Alcatel officials. End comment.

Palmer